# Cost inflation will drop from current peak



Contractors, desperately riding the tidal wave of construction cost inflation, won at least temporary relief with the government's freeze on all wages and prices in the economy.

And with prospects growing that some kind of controls on prices and wages will be imposed after the freeze expires, contractors may finally be able to navigate in calmer waters.

ENR forecasts a sharp deceleration in the rate of construction cost inflation through the end of next year, assuming the government's new-found determination to slow inflation does not peter out. The ENR Building Cost Index, which measures changes in basic materials prices and skilled wage rates, should climb only 8% between now and December, 1972, nearly halving the increase of the past 12 months.

The Construction Industry Stabilization Committee's (CISC) success in dampening construction wage inflation has prompted ENR to project a rapid deceleration of annual rates of wage increases for construction workers at least through the end of 1972. This downtrend, which is already evident, needs continued effectiveness of CISC to improve the long-range prospects of a significant easing of labor cost inflation.

A similar reduction in materials cost inflation should result from government policies designed to slow the rate of price increases both within the industry and the economy as a whole.

**Freeze is thorough.** The 90-day wage-price freeze halts inflationary pressures from all major construction cost components. Among the immediate advantages to contractors are:

- Postponement of construction machinery price increases that usually come in the fall.
- Delay of deferred increases due workers in long-term contracts while at the same time postponement of pay increases specified in newly signed agreements.
- Reduction of interest rates, a trend that received its major impetus from the announcement of the President's anti-inflationary programs.
- Delay of freight rate increases, scheduled to take effect this fall.
- Freezing of construction materials prices, with the exception of Canadian lumber, which is subject to a 10% import surcharge.

Actually, materials cost inflation will be little affected by the freeze. Relatively few materials price increases were scheduled between August and November. The large number of price hikes that took effect earlier in the year will stick.

Overall, the freeze should give contractors hope that their rapidly rising cost curves are about to bend sharply downward. And with most of the major cost indicators showing greater acceleration of cost inflation during the past year than over the previous 12 months, a braking of 1971's steep uptrend in costs is essential to encourage many owners to go ahead with construction plans that have been gathering dust on the drawing boards.

**Contract price rise speeded.** Contractors' selling prices are now higher than ever for every type of construction.

Basic construction costs in major cities are now nearly 16% higher than a year ago, according to the ENR 20-cities cost indexes. The Building Cost Index climbed 15.4% since September, 1971, about double its increase in the same 12 months of each of the preceding three years.

Contractor prices also accelerated their uptrend this year. The George A. Fuller Co. index followed closely the trend in ENR's Building Cost Index, while other indexes accelerated at a substantial though lesser pace.

Industrial building cost indexes showed an annual rise through mid-1971 of 11 to 12%, according to The Austin Co. and H. F. Campbell Co., with each tacking on an additional 2% over its increase during the preceding 12 months ended mid-1970. While Fruin-Colnon Contracting Co.'s industrial building price index for St. Louis was the only contractor index to show a rise of less than 10% in the past year, adding only 8.3%, this contrasted with a 4% dip in the preceding 12 months.

The Turner Construction Co., New York City, reports general construction costs up 11.4% during the latest July to July period, outstripping the 10.2% climb reported for the previous 12 months.

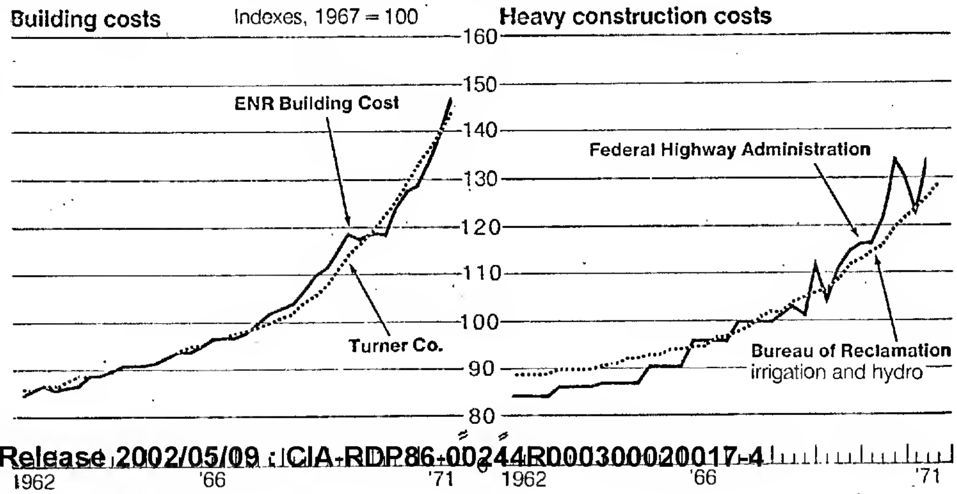
All three of the valuation firms also show a quickening construction cost rise during the past year. The American Appraisal 30-cities industrial index jumped 11.5% for the year ending in June, a sizable increase over the 8.6% rate of inflation measured for the 12 months prior.

The Boeckh building cost index, compiled by the Publication and Education Division of American Appraisal, showed a quickening 8.8% cost rise for commercial buildings and factories.

Meanwhile, the Marshall & Swift national industrial building cost index rose 10% during the 12 months ending in June and more than doubled its rate of cost climb over the previous year.

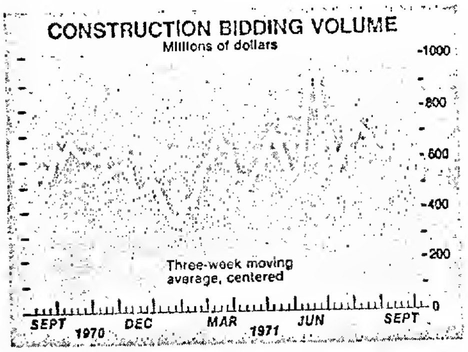
Highway contractors' bid prices in the June quarter were up 10% over a year earlier, compared to a 7.5% climb in the preceding 12 months. Only one

**The government will slow construction cost inflation**



# LATEST WEEK

| COST INDEXES ENR 20-cities 1913=100 | Sept. 9 Index value | Change from last month % | year % |
|---|---|---|---|
| Construction Cost | 1644.23 | + 0.7 | + 15.4 |
| Building Cost | 989.64 | + 0.6 | + 15.1 |
| Common labor (CC) | 3254.86 | + 0.6 | + 13.9 |
| Skilled labor (BC) | 1524.22 | + 0.3 | + 11.9 |
| Materials | 657.07 | + 0.9 | + 20.1 |




| 50-state totals ENR-reported | Week of Sept 16 | 1971 | Cum. 37 weeks change '70-'71 |
|---|---|---|---|
| | $ millions | | % |
| **BIDDING VOLUME** | | | |
| Total construction* | 822.6 | 23,379.4 | + 8 |
| Heavy & highway | 563.6 | 11,055.6 | + 9 |
| Nonresidential bldg | 216.9 | 10,710.5 | + 9 |
| Housing, multiunit | 42.0 | 1,613.3 | - 3 |
| **NEW PLANS** | | | |
| Total construction* | 815.9 | 39,747.7 | - 10 |
| Heavy & highway, total | 355.1 | 16,271.6 | + 1 |
| Water use & control | 121.8 | 4,762.9 | - 7 |
| Waterworks | 19.5 | 869.9 | - 7 |
| Sewerage | 68.3 | 2,727.3 | - 18 |
| Treatment plants | 39.3 | 1,016.7 | - 24 |
| Earthwork, waterways | 33.9 | 1,165.7 | + 38 |
| Transportation | 181.9 | 7,423.8 | - 13 |
| Highways | 30.1 | 5,598.2 | - 8 |
| Bridges | 0 | 673.7 | - 26 |
| Airports | 1.8 | 708.1 | - 6 |
| Terminals, hangars | 0.4 | 130.4 | - 65 |
| Elec, gas, comm | 0.7 | 3,142.0 | + 50 |
| Other heavy const | 50.8 | 942.1 | + 118 |
| Nonresidential bldg | 295.2 | 16,952.9 | - 16 |
| Manufacturing | 16.5 | 1,159.9 | - 41 |
| Commercial | 79.7 | 4,867.9 | - 12 |
| Offices | 26.4 | 2,138.6 | - 15 |
| Stores, shopping ctrs | 42.5 | 1,743.6 | - 7 |
| Educational | 79.0 | 5,074.8 | - 11 |
| College, university | 14.2 | 1,951.0 | - 25 |
| Medical | 42.7 | 2,828.1 | - 10 |
| Hospital | 27.5 | 2,284.9 | - 2 |
| Other | 77.3 | 3,022.3 | - 19 |
| Housing, multiunit* | 165.7 | 6,523.2 | + 19 |
| Apartments | 125.8 | 4,828.1 | + 19 |

*Excludes 1-2 family houses. Minimum sizes included are: industrial plants, heavy and highway construction, $100,000; buildings, $500,000.

NEW CONSTRUCTION CAPITAL

| | Week of Sept. 9 | 1971 | Cum. 36 weeks change '70-'71 |
|---|---|---|---|
| | $ millions | | % |
| Total new capital | 462.2 | 33,782.5 | + 81 |
| Corporate securities | [illegible] | [illegible] | [illegible] |
| State and municipal | 302.4 | 13,805.8 | + 37 |
| Federal grants, loans | 1.4 | 7,912.1 | + . . |
| Federal projects | 0 | 809.9 | + . . |

# LATEST MONTH

## ENR COST INDEXES IN 22 CITIES

Based on 1913 U.S. average -100

| City | CONSTRUCTION COST Sept. '71 Index | Percent change from last month | year | BUILDING COST Sept '71 Index | Percent change from last month | year |
|---|---|---|---|---|---|---|
| Atlanta | 1247.88 | + 1.8 | + 21.6 | 863.69 | + 4.2 | + 13.7 |
| Baltimore | 1419.73 | + 1.7 | + 27.6 | 988.76 | + 2.3 | + 20.3 |
| Birmingham | 1169.98 | + 1.2 | + 13.6 | 802.96 | + 3.5 | + 14.8 |
| Boston | 1727.28 | + 2.4 | + 20.5 | 1008.27 | + 3.0 | + 14.8 |
| Chicago | 1844.26 | + 1.0 | + 15.1 | 1065.53 | + 1.7 | + 12.1 |
| Cincinnati | 1872.44 | + 0.2 | + 16.7 | 1029.93 | + 3.4 | + 16.2 |
| Cleveland | 1978.08 | + 1.4 | + 12.9 | 1120.32 | + 2.5 | + 17.4 |
| Dallas | 1285.14 | + 1.4 | + 10.1 | 859.88 | + 2.1 | + 10.9 |
| Denver | 1349.80 | + 1.5 | + 12.1 | 950.98 | + 2.1 | + 16.1 |
| Detroit | 1963.25 | + 0.9 | + 17.8 | 1113.57 | + 1.6 | + 15.8 |
| Kansas City | 1899.88 | + 7.4 | + 27.5 | 969.22 | + 3.7 | + 19.7 |
| Los Angeles | 1694.39 | + 0.4 | + 14.3 | 955.17 | + 1.8 | + 17.4 |
| Minneapolis | 1760.50 | + 1.3 | + 16.0 | 966.15 | + 3.1 | + 10.9 |
| New Orleans | 1263.30 | + 7.8 | + 14.7 | 839.70 | + 6.4 | + 12.4 |
| New York | 2171.75 | + 1.1 | + 22.8 | 1197.83 | + 2.3 | + 20.0 |
| Philadelphia | 1493.90 | + 1.6 | + 7.5 | 1021.30 | + 2.4 | + 13.0 |
| Pittsburgh | 1661.68 | + 1.4 | + 16.5 | 1103.97 | + 2.1 | + 20.2 |
| St. Louis | 1858.16 | + 1.0 | + 12.5 | 958.53 | + 4.4 | + 12.5 |
| San Francisco | 1759.46 | + 2.3 | + 10.9 | 1082.16 | + 3.8 | + 18.1 |
| Seattle | 1471.92 | + 1.2 | + 4.9 | 871.30 | + 2.0 | + 9.5 |
| **U.S.-20 Cities' avg** | **1644.64** | **+ 1.8** | **+ 15.7** | **989.96** | **+ 2.8** | **+ 15.5** |
| Montreal | 1301.43 | + 0.5 | + 9.7 | 773.19 | + 0.8 | + 4.8 |
| Toronto | 1403.80 | - 0.2 | + 14.5 | 852.77 | + 2.4 | + 11.5 |

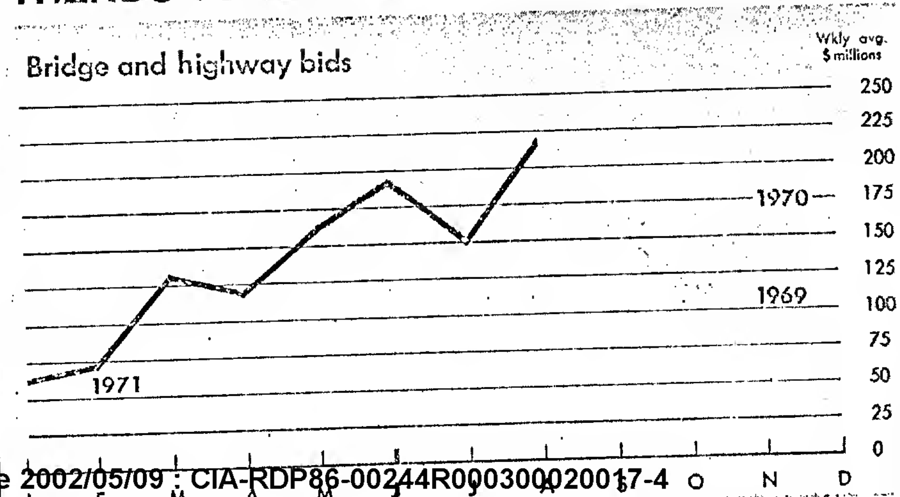
## ENR WAGE, MATERIALS AND COST INDEXES IN 20 CITIES

*Based on each city's 1957-'59 average = 100*

| City | COMMON LABOR Sept. Index | %chg fr '70 | SKILLED LABOR Sept. Index | %chg fr '70 | MATERIALS PRICES Sept. Index | %chg fr '70 | Const Cost Index | Bldg Cost Index |
|---|---|---|---|---|---|---|---|---|
| Atlanta | 260 | + 22.6 | 211 | + 9.9 | 160 | + 18.5 | 220 | 187 |
| Baltimore | 242 | + 28.0 | 229 | + 16.2 | 149 | + 27.4 | 206 | 187 |
| Birmingham | 234 | + 14.7 | 191 | + 17.9 | 143 | + 12.6 | 195 | 166 |
| Boston | 252 | + 19.4 | 221 | + 8.9 | 154 | + 24.2 | 219 | 189 |
| Chicago | 248 | + 16.4 | 240 | + 12.7 | 150 | + 11.1 | 216 | 195 |
| Cincinnati | 288 | + 16.1 | 246 | + 13.9 | 180 | + 19.4 | 251 | 201 |
| Cleveland | 253 | + 10.0 | 257 | + 13.2 | 165 | + 25.0 | 227 | 212 |
| Dallas | 266 | + 7.3 | 198 | + 6.5 | 175 | + 17.4 | 229 | 186 |
| Denver | 222 | + 9.4 | 241 | + 13.1 | 134 | + 19.6 | 186 | 181 |
| Detroit | 267 | + 16.1 | 264 | + 12.3 | 138 | + 23.2 | 226 | 198 |
| Kansas City | 313 | + 31.0 | 234 | + 21.9 | 144 | + 17.1 | 249 | 183 |
| Los Angeles | 242 | + 13.6 | 228 | + 17.5 | 137 | + 17.1 | 210 | 182 |
| Minneapolis | 265 | + 15.2 | 244 | + 11.9 | 135 | + 18.4 | 209 | 182 |
| New Orleans | 259 | + 12.6 | 201 | + 6.9 | 147 | + 20.5 | 202 | 173 |
| New York | 276 | + 22.7 | 246 | + 17.7 | 140 | + 25.0 | 237 | 196 |
| Philadelphia | 218a | 0 | 212a | + 1.9 | 144 | + 32.1 | 193 | 180 |
| Pittsburgh | 239 | + 14.9 | 237 | + 19.1 | 149 | + 22.1 | 208 | 191 |
| St. Louis | 276 | + 11.7 | 223 | + 9.9 | 130 | + 17.1 | 227 | 172 |
| San Francisco | 246 | + 5.1 | 246 | + 6.5 | 170 | + 34.9 | 223 | 209 |
| Seattle | 198a | 0 | 205a | + 1.0 | 155 | + 24.0 | 190 | 183 |

a contracts expired: new rates being negotiated

# TRENDS TO WATCH




Record bids for highways and bridges in August pull 1971 lettings up 1% over 1970.

Sept 71